

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Barbara Beerhalter | Chair |
| Cynthia A. Kitlinski | Commissioner |
| Norma McKanna | Commissioner |
| Robert J. O'Keefe | Commissioner |
| Darrel L. Peterson | Commissioner |

In the Matter of a Request for Price Flexibility
for CaroLine Services Offered by
Northwestern Bell Telephone Company and
Various Miscellaneous Tariff Changes
Regarding CaroLine Services

ISSUE DATE: September 7, 1988

DOCKET NO. P-421/M-85-903

ORDER DENYING RECONSIDERATION

PROCEDURAL HISTORY

On June 22, 1988, the Minnesota Public Utilities Commission (the Commission) issued its ORDER APPROVING TARIFF CHANGES AND DETARIFFING SERVICE, SUBJECT TO DEMONSTRATION THAT DETARIFFED PRICES COVER EMBEDDED COSTS in the above-captioned matter. That Order detariffed Northwestern Bell Telephone Company's (NWB or the Company) CaroLine services and required NWB to file within 30 days price lists, supported by incremental cost studies and documentation that filed prices covered embedded costs and a reasonable portion of joint and common costs.

On July 6, 1988, the Company requested a time extension until August 22, 1988 to make its compliance filing. The Commission granted the request by Order of August 4, 1988.

On July 5, 1988 the Minnesota Department of Public Service (Department or DPS) filed its Petition for Reconsideration of the June 22, 1988 Order. On July 12, 1988, the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed its Comments on the Department's petition for reconsideration. NWB filed its Response to the petitions for reconsideration on July 18, 1988.

The Commission met on Tuesday, August 9, 1988, to consider the filings of the parties.

FINDINGS AND CONCLUSIONS

The Commission must decide whether to reconsider its June 22, 1988 Order.

In its Petition for Reconsideration the DPS argued that the Commission had granted NWB rate flexibility in a manner contrary to state law and asked the Commission to reconsider its decision and reject NWB's CaroLine tariff. The Department argued that the Commission could not grant NWB pricing flexibility for its CaroLine service because the Company had not elected to regulation under Minn. Stat. Secs. 237.59-62 (Supp. 1987). In the alternative, the DPS asked the Commission to require NWB to provide a fully allocated embedded cost study of all its services, competitive and non-competitive, in its next general rate case. The DPS claimed that this would provide ratepayers the same protection against cross subsidization as Minn. Stat. Sec. 237.62 (Supp. 1987) provides.

The RUD-OAG supported the DPS Petition and in the alternative asked that the Commission amend Ordering Paragraph Three of its June 22, 1988 Order to mirror the requirements of Minn. Stat. Sec. 237.62, subd. 1 (b) (Supp. 1987). This would require a utility which does not separate the costs of its competitive and non-competitive services to impute revenues to those competitive services which are priced below their embedded cost in a rate case.

The Commission finds that the petitioners have not raised any issues the Commission did not consider in issuing its June 22, 1988 Order. That Order discusses the new telephone law and the fact that NWB has not elected regulation under that law. The Commission's Order states at p. 3:

NWB's non-election places the Commission in the difficult position of interpreting how to treat a proposal for detariffing from a non-electing company given the law's provisions on competition, price flexibility or detariffing in telecommunications services. . . .

The Commission finds it can either reject NWB's proposal or it can approve NWB's proposal with modifications designed to protect the company's local ratepayer from cross-subsidization of competitive services. The commission finds that the first option, to reject NWB's proposal, is not consistent with the Commission's policy to allow more flexible regulatory treatment of services where, as in the case of CaroLine, alternative service providers exist. . .

The Commission policy of more flexible regulatory treatment is evidenced by the deregulation of the NWB's CENTRON services (See, the Commission's Findings of Fact, Conclusions of Law and Order issued September 11, 1984 and Order Denying Reconsideration and Amending Order issued December 31, 1984 in Docket Nos. P-421/M-83-466, P-421/M-84-24,25, and 26.) and the Commission's more recent decision in In the Matter of a Summary Investigation into IntraLATA Toll Access Compensation for Local Exchange Carriers Providing Telephone Service Within the State of Minnesota, Docket No. P-999/CI-85-582, Order After Reconsideration (January 11, 1988). The Commission finds that the DPS and RUD-OAG view of its role following passage of Minn. Stat. Secs. 237.59-62 (Supp. 1987) is unnecessarily narrow. The Commission believes that the mandate of Minn. Stat. Sec. 237.06 (1986) that rates for telephone service be fair and reasonable

requires flexibility and creativity in light of the sweeping changes in the telecommunications industry. To interpret the law differently actually undercuts Minnesota law. Minn. Stat. Secs. 237.59-62 (Supp. 1987) gives telephone companies the option to elect a new, less formal type of regulation. This law aids the Commission in developing new approaches to regulation; it does not foreclose existing methods nor prohibit the development of other reasonable modes of regulation. If companies can address the challenges of competition in telephone service only by being forced to choose the new form of regulation, that choice is illusory.

Further, the Commission finds that its June 22, 1988 Order provides adequate accounting safeguards to ensure that ratepayers are protected from cross-subsidization of competitive services by non-competitive services. The Commission affirms its earlier Order and denies the petitions for reconsideration.

ORDER

1. The Commission hereby denies the petitions for reconsideration filed by the Department of Public Service and the Residential Utilities Division of the Office of the Attorney General.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)